

WATER/FLC/TAC:jrb**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA****WATER DIVISION****RESOLUTION NO. W-4587****March 2, 2006****R E S O L U T I O N**

**(RES. W-4587), ROGINA WATER COMPANY, INC. (RWC). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING AN
ADDITIONAL ANNUAL REVENUE OF \$97,531 OR 20.9% IN 2006.**

SUMMARY

By Draft Advice Letter, filed on March 17, 2005, RWC seeks an increase in rates for water service to recover increased expenses of operation and earn an adequate return on its plant investment. For Test Year 2006, this resolution grants an increase in gross annual revenues of \$97,531 or 20.9% which is estimated to provide a 24% rate of margin and return on rate base of 16.71 in Test Year 2006.

BACKGROUND

RWC, a Class C water utility, has requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase its water rates by \$64,781 or 13.86% for test year 2005. This general rate increase is filed in compliance with Ordering Paragraph 4 of Resolution No W-4494, dated September 23, 2004, which required RWC to file a general rate increase within six months from the date of the Order. RWC would like to recover increased operating expenses and provide a rate of return on the increased rate base. RWC's request shows 2005 gross revenues of \$467,351 at present rates, increasing to \$532,132 at proposed rates in 2005. RWC is requesting a return-on-rate-base of 12.15%. The request was submitted utilizing the rate of return method rather than the rate of margin method. The company later asked that rate of margin method be used in determining proposed rates.

The last general rate increase (GRC) became effective June 8, 1994, pursuant to Resolution W-3853, which authorized a general rate increase of \$25,131 or 9.6% in 1993 and a step increase of \$7,753 or 2.7% in 1994 and an annual rate of return of 11.3%. RWC' current rates became effective on October 1, 2004, pursuant to Decision No. 92-03-093 dated March 31, 1992, which authorized RWC to establish the required Memorandum Account and record therein all expenditures that are a direct result of unanticipated events. The filing authorized a one-time surcharge to be collected over

twelve months to offset the expenses paid by RWC to repair and recondition a pump station.

RWC is a California Corporation providing water service to 952 metered customers in Talmage and vicinity, a suburban area three miles east of the city of Ukiah, in Mendocino County. Most residential customers are full-time residents, with a mixture of retired and working individuals.

In its original filing on March 17, 2005, RWC omitted to include costs relating to purchased water because in the past no such costs were incurred. In a letter dated July 13, 2005, RWC requested an inclusion of purchased water expenses. In the letter, RWC explained that on November 2, 2004, they entered into a water supply agreement with the Mendocino County Russian River Flood control and Water Conservation Improvement District. For over 40 years, the district has not charged RWC for the use of water from the district's allocation. However, due to new demands and more water allocations, the district is now charging RWC for an allotment of 400-acre feet. The charge will be \$23/acre-foot, representing additional annual expense of \$9,200.

RWC is also requesting that if an unreasonably large number of customers request to downsize their 1-inch meter to ¾-inch meter service, RWC be allowed to track loss of revenue in a memorandum account to be recovered at a future date.

RWC has also requested authority to incorporate a facilities fee into its tariff. RWC estimates 315 new connections for the period from 2006 - 2020. RWC expects to add utility infrastructure totaling \$1,021,900, which includes 422 feet of 1 1/2" water mains, 5,971 feet of 2" mains, 2,240 feet of 3" mains, 10,070 feet of 4" mains, 9,810 feet of 6" mains, 6,270 feet of 8" mains, 237 galvanized steel services, and 152 poly-butylene services.

The system consists of wells, pumps, storage tanks, distribution mains, services, meters, fire hydrants, water treatment equipment, etc. Distribution mains are steel, plastic or transite ranging in size from 1.5" to 10". RWC obtains its water from five wells located on the east side of the Russian River, about a mile south of the Vichey Springs Bridge. The capacity of the wells is over 1,200 gallons per minute (gpm). Water is mostly pumped from a 60 hp well, which produces 400 gpm. A larger 100 hp (750 gpm) well is used on an as needed basis.

A small 3 hp well augments the 60 hp well in summer, and a 10 hp well augments the 100 hp well. Another small 2 hp well is used as standby only. All wells are located in close proximity and are served by one electrical meter. From the well sites, RWC pumps the water approximately 1,200 feet to a 460,000-gallon steel tank and a 140,000-gallon concrete tank. There are also two 3,500-gallon capacity hydropneumatic tanks

and two 10 hp booster pumps. To serve homes along the higher elevation Guidiville Road, RWC maintains a two hp booster pump and a 3,000-gallon concrete storage tank.

In the near future, RWC will need to construct a new well, a new 442,000-gallon steel tank and will need to replace about 173 meters. The steel tank will replace a 140,000-gallon concrete tank built in 1948. It has cracks and leaks and the structure is not earthquake safe. The State Health Department report on water system adequacy assessment states that RWC's system does not meet the distribution storage requirements. The new well will add to the existing supply and will provide the water system with another site in case of a power or water supply shortages. Water tables are dropping at the existing well so additional supply is required.

DISCUSSION

The Water Branch (Branch) made an independent analysis of RWC's operations and issued its report in December 2005. Appendix A shows RWC's and the Branch's estimated summary of earnings at present, proposed, and recommended rates for test year 2006. Following discussions, RWC and the Branch agreed to the 2006 summary of earnings at the Branch recommended rates shown in Appendix A.

The major differences in expenses were in purchased water, materials, transportation expenses, employee pension and benefits, professional services, office services and rentals, insurance, and general expenses. The major differences in RWC's rate base were in plant and accumulated depreciation.

A large portion of RWC's system is in need of replacement or major maintenance in order to avoid unplanned service interruption. RWC will be seeking approval of a new well and a 442,000-gallon steel storage tank. Branch recommends that when the utility completes the plant improvements it should file an Advice Letter to recover costs associated with the plant improvements. Branch also recommends that the reasonableness of costs be reviewed by the Water Division once the advice letter is filed.

Two methods are available for Branch to utilize in the rate-making process: (1) Rate of Return, and (2) Rate of Margin. Branch calculates the revenue requirement utilizing the rate of return method and then calculates the revenue requirement utilizing the rate of margin method. Policy dictates that Branch recommends the method that produces the higher revenues.¹ This method gives the small water utilities the opportunity to earn a

¹ D.92-03-093. March 31, 1992.

more reasonable and appropriate revenue requirement when the utility has “little rate base”.² If only the Rate of Return Method was used, a utility with little or no rate base would earn little or no return. By having the opportunity to use Rate of Margin, these utilities are able to earn a reasonable return.

In Res. W-4524 (March 17, 2005), the CPUC adopted a revised set of standard practices for determining the profit of Class C and D water utilities using the rate of return and rate of margin methods. Based on this revision, the Water Division determines a standard set of rates of return and rates of margin based on current data, to be used by Branch in that year’s Class C and D general rate cases.

In the rate of margin method, the utility’s revenue requirement is defined as the sum of its operating and maintenance expenses, depreciation expenses, income and other taxes, multiplied times the rate of margin. A rate of margin of 24% was used.

Comparison of the revenue requirement indicates that the Rate of Margin method produces a higher revenue requirement. Based on current rates, RWC’s annual revenue for Test Year 2006 is \$467,351. The Branch recommends that the Commission authorize a rate increase of \$97,531 or 20.9% which is estimated to provide a 24% rate of margin and return on rate base of 16.71 in Test Year 2006.

D.92-03-093 allows Class C utilities to recover up to 65% of fixed costs in their readiness-to-serve charge. In order to reduce the rate increase impact, RWC asked to recover only 60.25% of fixed expenses through service charges. The rates shown in Appendix B recover 60.25% of the utility’s fixed cost. RWC’s current rate structure consists of three schedules: Schedule No. 1, General Metered Service, Schedule No. 3M, Irrigation Service, and Schedule No. 4, Private Fire Protection Service. The new rate schedules appear in Appendix B.

At the Branch’s recommended rates shown in Appendix B, the bill for a typical residential customer with a 5/8-inch meter using an average of 22 Ccf of water would receive an increase in a monthly bill from \$33.83 to \$38.49, or 13.75% in test year 2006. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

The Branch staff reviewed operating revenues, and expenses, including salaries and contracting fees, purchased power, insurance expenses, income, and other taxes. Staff

² *ibid*, p.37.

verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent.

NOTICE AND PUBLIC MEETING

Customer notices of the proposed rate increase were mailed to each customer on June 22, 2005. The Branch and RWC received two letters from the customers, one expressing an understanding for the rate increase and one complaining about the magnitude of the increase. The Consumer Affairs Branch has not received any complaints.

On July 18, 2005, Staff held an informal public meeting in RWC service area. The meeting started at 7pm and adjourned at 7:45pm. Five customers attended the meeting.

Ms. Cherkas, Senior Utilities Engineer, explained Commission rate setting procedures. Mr. Marino Rodriguez, consultant to RWC, explained the need for the increase. The customers who attended the meeting asked questions about various expense categories. Overall, customers agreed that service was satisfactory.

COMPLIANCE

The utility has been filing annual reports as required. However, RWC needs to update the following tariff schedules in its tariff book: Preliminary Statement; Schedule LC, Late Payment Charge; Schedule UF, Surcharge to Fund PUC Reimbursement Fee; Rule No. 5, Special Information Requirement on Forms; Rule No. 7, Deposits; Rule No. 9, Rendering and Payment of Bills; Rule No. 10, Disputed Bills; Rule No. 11, Discontinuance and Restoration of Service; Form No. 2, Customer's Deposit Receipt; and, Form No. 3, Bill for Service.

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

FINDINGS

1. The Branch's recommended Summary of Earnings shown in Appendix A is reasonable and should be adopted.
2. The rates recommended by the Branch (Appendix B) are reasonable and should be adopted.

3. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
4. Branch recommends that when RWC completes the plant improvements it should file an Advice Letter to recover costs associated with the plant improvements. Branch also recommends that the reasonableness of costs be reviewed by the Water Division once the advice letter is filed.
5. RWC should update the following tariff schedules in its tariff book: Preliminary Statement; Schedule LC, Late Payment Charge; Schedule UF, Surcharge to Fund PUC Reimbursement Fee; Rule No. 5, Special Information Requirement on Forms; Rule No. 7, Deposits; Rule No. 9, Rendering and Payment of Bills; Rule No. 10, Disputed Bills; Rule No. 11, Discontinuance and Restoration of Service; Form No. 2, Customer's Deposit Receipt; and, Form No. 3, Bill for Service.
6. RWC should be allowed to incorporate facilities fees into its tariff.
7. RWC should be allowed to track loss of revenue in a memorandum account associated with unreasonably large number of customers requesting to downsize their 1-inch meter to $\frac{3}{4}$ -inch meter service.
8. This is an uncontested matter subject to the public notice comment exclusion provided in the PU Code Section 311(g)(2).

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Rogina Water Company, Inc. to file an advice letter incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rates Schedule No. 1, General Metered Service, Schedule No. 3M, Irrigation Service, and Schedule No. 4, Private Fire Protection Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Rogina Water Company, Inc. shall update the following tariff schedules in its tariff book: Preliminary Statement; Schedule LC, Late Payment Charge; Schedule UF, Surcharge to Fund PUC Reimbursement Fee; Rule No. 5, Special Information Requirement on Forms; Rule No. 7, Deposits; Rule No. 9, Rendering and Payment of Bills; Rule No. 10, Disputed Bills; Rule No. 11, Discontinuance and Restoration of Service; Form No. 2, Customer's Deposit Receipt; and Form No. 3, Bill for Service.

3. Rogina Water Company, Inc. is authorized to file an advice letter seeking authorization to include in rate base plant additions set forth in its proposed capital improvements. Water Division shall verify that the plant additions have been completed and placed in service. To the extent Rogina Water Company's advice letter filing is compliant with this resolution, the rate adjustments shall be effective on regular statutory notice.
4. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on March 2, 2006; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

Appendix A
Rogina Water Company, Inc.
SOE - Test Year 2006

Description	RWC Present Rates	RWC Requested Rates	Branch Present Rates	Branch Requested Rates	Branch Recommended Rates
OPERATING REVENUES					
Metered Water Revenue	455,466	518,616	455,466	518,616	550,531
Irrigation Revenue	11,341	12,931	11,341	12,931	13,727
Fire Protection Revenue	544	585	544	585	621
TOTAL REVENUES	467,351	532,132	467,351	532,132	564,882
OPERATING EXPENSES					
Purchased Water	0	0	0	9200	9200
Purchased Power	93,620	93,620	93,620	93,620	93,620
Other Volume Related Exp.	3,620	3,620	3,620	3,620	3,620
Employee Labor	37,370	37,370	37,370	37,370	37,370
Materials	16,300	16,300	12,985	12,985	12,985
Contract Work – General Exp.	5,058	5,058	5,058	5,058	5,058
Contract Work – Water Testing	7,877	7,877	7,877	7,877	7,877
Transportation Expenses	35,338	35,338	26,886	26,886	26,886
Other Plant Maintenance	119	119	119	119	119
Office Salaries	21,761	21,761	21,761	21,761	21,761
Management Salaries	63,600	63,600	63,600	63,600	63,600
Employee Pensions and Benefits	16,257	16,257	15,819	15,819	15,819
Uncollectible Accounts Exp.	800	900	900	900	900
Office Services and Rentals	7,007	7,007	6,855	6,855	6,855
Office Supplies and Expenses	17,191	17,191	17,191	17,191	17,191
Professional Services	15,490	15,490	9,218	9,218	9,218
Insurance	18,339	18,339	17,901	17,901	17,901
Regulatory Commission Expenses	4,164	4,164	4,164	4,164	4,164
General Expenses	13,379	13,379	11,283	11,283	11,283
SUBTOTAL	377,290	386,590	356,254	365,454	365,454
Depreciation Expense	33,322	33,322	29,838	29,838	29,838
Taxes Other Than Income Taxes	21,906	21,906	20,330	20,330	20,330
Income Taxes	5,793	24,301	14,272	33,411	49,510
TOTAL DEDUCTIONS	438,311	456,919	420,694	449,033	465,132
NET REVENUE	29,040	75,213	46,657	83,099	99,749
RATE BASE					
Average Plant	1,710,068	1,710,068	1,564,285	1,564,285	1,564,285
Less: Avg. Accum. Depreciation.	738,799	738,799	735,134	735,134	735,134
CIAC	272,238	272,238	272,238	272,238	272,238
Advances for Construction	120,935	120,935	120,935	120,935	120,935
Plus: Working Cash.	31,443	31,443	29,688	30,455	30,455
Materials and Supplies	9,500	9,500	9,500	9,500	9,500
RATE BASE	619,039	619,039	475,166	596,868	596,868
RATE OF RETURN	4.69%	12.15%	9.82%	13.92%	16.71%
RATE OF MARGIN					24%

APPENDIX B
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Rogina Water Company, Inc.

Schedule No. 1
GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Talmage and vicinity, near Ukiah, Mendocino County.

RATES

Quantity Rates:	<u>Per Month</u>
All water used per 100 cubic feet.....	\$ 1.124 (I)
Service Charge:	
For 5/8 x 3/4-inch meters	\$ 13.76 (I)
For 3/4-inch meters	\$ 20.63
For 1-inch meters	\$ 34.39
For 1-1/2-inch meters	\$ 68.78
For 2-inch meters	\$ 110.04
For 3-inch meters	\$ 206.33
For 4-inch meters	\$ 343.88
For 6-inch meters	\$ 687.97 (I)

The Service Charge is a readiness-to-serve charge, which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rate.

SPECIAL CONDITIONS

1. A late charge will be imposed per Schedule No. LC.
2. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit will, at the company's option, be furnished on the account of the landlord or property owner.
3. All bills are subject to the Reimbursement fee set forth in Schedule No. UF.

(D)

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Rogina Water Company, Inc.

Schedule No. 3M
IRRIGATION SERVICE

APPLICABILITY

Applicable to all metered irrigation service.

TERRITORY

Talmage and vicinity, near Ukiah, Mendocino County.

RATES

Quantity Rates:		Per Meter	
		<u>Per Year</u>	
All water used per 100 cubic feet.....		\$ 0.858	(I)
Service Charge:			
For	1 1/2-inch meters	\$ 402.46	(I)
For	2-inch meters.....	\$ 548.78	
For	3-inch meters	\$ 934.49	
For	4-inch meters	\$1,289.70	
For	6-inch meters	\$2,128.14	(I)

The Service Charge is a readiness-to-serve charge, which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rate.

SPECIAL CONDITIONS

1. The annual service charge shall be payable prior to commencement of each irrigation year.
2. This service is secondary to domestic service and the utility must be given 24 hours notice before each irrigation. In the event that insufficient water is available for all irrigation users to be served at the same time, rotation of use may be required.
(D)
3. All bills are subject to the Reimbursement fee set forth in Schedule No. UF.

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Rogina Water Company, Inc.

Schedule No. 4
PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished for privately-owned fire protection systems.

TERRITORY

Talmage and vicinity, near Ukiah, Mendocino County.

RATES

Quantity Rate:

All water used per 100 cubic feet..... \$ 1.05 (I)

Service Charge:

Per Service Per Month

For each inch in diameter of service connection... \$ 3.23 (I)

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall not be more than the main to which the service is connected.
3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
4. Service hereunder is for private fire protection systems to which no connection for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage, or waste of water, and the cost paid by the applicant. Such payment shall not be subject to refund.
5. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.
6. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

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Rogina Water Company, Inc.

Schedule No. F
FACILITIES FEES

APPLICABILITY

Applicable to all customers applying for services from the utility in the territory served for premises connected to its distribution mains, for additional service connections to existing premises, and for increase in size of service connections to existing premises.

TERRITORY

Talmage and vicinity, near Ukiah, Mendocino County.

RATES

Initial Fee for each Service Connection:

For	5/8 x 3/4-inch meters	\$ 3,000
For	3/4-inch meters	\$ 4,500
For	1 inch meters	\$ 7,500
For	1-1/2-inch meters.....	\$ 15,000
For	2-inch meters	\$ 24,000

SPECIAL CONDITIONS

1. Facilities fees are payable in addition to and do not limit any charges for extensions of mains that may be applicable under Rule 15, Main Extensions.
2. These fees **are not** subject to the Public Utilities Commission Reimbursement Fee surcharge in Schedule UF.
3. Facilities fees authorized herein shall be deposited within five days of receipt in a separate bank account paying interest. A direct confirmation from the bank shall be mailed to the Director of the Water Division after making such deposit to verify the amount deposited.
4. Facilities Fees shall be treated as Contributions-in-Aid-of-Construction and follow the requirements as specified in the Internal Revenue Code Section 118 to qualify as such.
5. Facilities fees shall be accounted for as Contributions-in-Aid-of Construction in accordance with the Commission's prescribed Uniform System of Accounts. In addition, the balance of facilities fees collected including interest, shall be reported in the utility's annual report to the Commission.
6. The plant constructed with facilities fees shall be removed from rate base for rate-making purposes.

APPENDIX C
Rogina Water Company, Inc.

COMPARISON OF RATES
Test Year 2006

5/8 - inch meter comparison:

Monthly Usage 100 cu. Ft.	Present Bills	Recommended Bills	Amount Increase	Percent Increase
0	\$ 13.46	\$ 13.76	\$0.30	2.19%
10	\$ 22.72	\$ 25.00	\$2.28	10.02%
22	\$ 33.83	\$ 38.49	\$4.65	13.75%
30	\$ 41.24	\$ 47.48	\$6.24	15.13%
40	\$ 50.50	\$ 58.72	\$8.22	16.28%

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Rogina Water Company, Inc.

ADOPTED QUANTITIES
Test Year 2006

1. Federal Tax Rate: 15% for 1st \$50,000 of taxable income
25% for next \$25,000 of taxable income
34% for next \$25,000 of taxable income
39% for next \$235,000 of taxable income
2. State Tax Rate: 8.84%
3. Service Connections:

3/8 x 5/8"	678	customers
1"	254	customers
1 1/2"	12	customers
2"	8	customers
3"	0	customer
4"	0	customer
Total	952	customers

Fire Protection	3	customers
Irrigation	1 1/2"	6 customers
	2"	9 customers
4. Property Taxes: \$10,082
1.1% tax rate
5. Payroll Taxes: \$10,248
6. Contract Work - Water Testing: \$7,877
7. Purchased Power
Pacific Gas and Electric Company
Breakdown:
Schedule No. A-1 (Guidiville Rd. and Vichi Hill Dr. Pump Locations)
Energy Charge:

kWh used - Winter	3,625
Summer	10,458
Rate \$/kWh - Winter	\$0.12161
Summer	\$0.1827

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Rogina Water Company, Inc.

ADOPTED QUANTITIES
Test Year 2006

Schedule No. E19S (Recreation Rd. Pump Location)

Energy Charge:

kWh used - Winter	154,649
Summer	484,395
Rate \$/kWh - Winter:	
Energy Charge Partial Peak	\$0.1081
Energy Charge Off Peak	\$0.08203
Rate \$/kWh - Summer:	
Energy Charge On Peak	\$0.15746
Energy Charge Partial Peak	\$0.09613
Energy Charge Off Peak	\$0.08223

Demand Charge:

Winter:	
Demand Charge Partial Peak	546kWh x \$3.69
Demand Charge Off Peak	697kWh x \$3.18
Summer:	
Demand Charge On Peak	1074kWh x \$13.51
Demand Charge Partial Peak	1173kWh x \$3.75
Demand Charge Off Peak	1047kWh x \$3.18

Energy Tax - 20%

8. Adopted Tax Calculations

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$564,882	\$ 564,882
2.	Expenses	\$365,454	\$ 365,454
3.	Taxes Other Than Income Taxes	\$ 20,330	\$ 20,330
4.	Depreciation	\$ 29,838	\$ 29,838
5.	State Taxable Income	\$149,260	
6.	State Income Tax (@8.84% or \$800 minimum)	\$ 13,195	
7.	Federal Taxable Income		\$ 136,065
8.	Federal Income Tax (15% - 34%)		\$ 36,315
9.	TOTAL INCOME TAX		\$ 49,510